
CHALLENGES AND BARRIERS ENCOUNTERED BY THE SMES OWNERS IN MUSCAT

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ABSTRACT: *Small and Medium Enterprises (SMEs) plays a decisive role in any developing economy. In Oman about 60 percent of the SMEs are the source of employment. Although there is an increase in the SMEs but there is also innumerable challenges associated with the growth, this research paper explores the specific challenges encountered by the SME owners. In this study simple random sampling was adopted with the data sample size of 35 SME owners and the data was collected with the help of structured questionnaire. The data was further analyzed by using descriptive statistics and ANOVA and represented through tables. It was found that the majority of SMEs face challenges in the form of policy and administrative challenges followed by the marketing and financial issues. It is suggested that the SMEs directorate should form a committee to prepare the SME framework, the rules and regulations associated towards that to avoid cumbersome policies and complexities for those who would prefer registering the business legally.*

KEYWORDS: Challenges, Directorates, Framework, Small and Medium-Enterprises (SMEs)

INTRODUCTION

The governments of developed as well as developing countries have acknowledged the reality that Small and Medium Enterprises (SMEs) form the nucleus of any economy. Green, (2003). There is an universal agreement on their major participation to the economic growth, employment creation, social cohesion, poverty alleviation and local and regional development. SMEs are the largest group of enterprises in any economy.

According to Matlay, H Westhead, P, (2005), "SMEs make significant contributions to the socio-economic and political environment of most developed and developing nations as well

as to countries that are in progression from a command economy to market economy". Healthy and growing SME sector is considered to be important in obtaining sustainable competitive advantage and economic development at local, regional, and national levels. According to United Nations Industrial Development Organization (UNIDO) approximates "SMEs consist of more than 90% of all enterprises in the world and on an average are accountable for 80 to 90% percent of total employment. In the whole of Asia Pacific, more than 95% of companies are in SMEs sector, Japan 99%, Singapore 99.7%, Malaysia 96% etc" Koshy, P, (2007). Experts believe that good management, strong leadership, skilled work and innovation are among the major forces that contribute to the success of this vital sector.

Ozgulbas et al, (2006) Despite that the SMEs are playing a positive role in the developing countries through creating job opportunities for all the social classes in the community specially the entrepreneur persons which will contribute in increasing the personal income level and a achieving the self satisfaction partially for some goods and service necessary for the community, in addition contribution in solving the poverty and who are looking for work problem. Also these projects distinguished from the large firms by the low investment size which reduce its risk, beside that it consider as a good sphere to develop the managerial, technical, productivity, and marketing skills, and open a fertile scope for entrepreneurial individual initiatives, and enhance the self depending culture, to the extent that reduce pressure on the public sector at creating new job opportunities. OCCI, (2006), "SMEs are vital in developing countries, for the economic growth and development. SMEs, through entrepreneurship helps the process of economic development, fosters economic growth, generate employment, and reduces rural unemployment and migration".

SMEs: Definition and Relevance

The concept of SMEs is dynamic and relative Otokiti, (1985); Olorunshola, J. A, (2004); Ogunleye, (2004). There is no universal definition for SMES as it varies from country to country. SMEs are normally categorized by the number of employees or by the worth of their total assets and by their turnover. The size-classification varies between different countries and there is no universal agreement in their definitions. The definition of small and medium industries differs from one country to another. It is easy to describe SMEs but difficult to give them a unified definition which is acceptable at international or even regional level due to the differences in the social and economic structures of the each country, as well as the differences in the criteria determining the basics of the enterprises such as: the statistical data used in the definition. Due to lack of data, the definition of SME will remain mixed.

Table 1.
Definition of SMEs by number of employees and annual turnover in Oman

Oman Tender Board		
	No. of employees	Annual Turnover
Small	Up to 15	100,000 RO
Medium size (Grade 1)	Up to 250	1,000,000 OR
Medium size (Grade 2)	Up to 100	500,000 OR
Medium enterprises (Grade Excellent)	over 250 employees	1,000,000 OR
Ministry of Commerce & Industry		
	No. of employees	Annual Turnover
Micro Enterprises	0-5	< 25,000 OR (about \$ 65,000)
Small Enterprises	6-20	<25,000-2,50,00 OR (about \$ 6,50,000)
Medium Enterprises	21-100	<2,50,000-1.5 million OR (about \$ 3.9 million)

Source: Ministry of Commerce and Industry, 2011

Among these institutions, the definition of SMEs offered by Oman Tender Board was adopted for this research work. The adoption of this definition is based on the fact that it is more comprehensive and categories the different grades of medium enterprises than others.

Classification of Small and Medium Enterprises

Lukács, (2005), notes that “the small and medium enterprises (SMEs) are constituted of a very heterogeneous group. They may include a wide variety of firms from village handicraft makers, small machine shops, restaurants, and computer software firms – that possess a wide range of sophistication and skills, and operate in very different markets and social environments. These SMEs normally operate in the formal sector of the economy, employ mainly wage-earning workers, and participate more fully in organized markets. Small and Medium-sized Enterprises (SMEs) are made up of a wide group of businesses in the trade, agro business, manufacturing, and service sectors. SMEs include a variety of firms that include village handicraft makers, small foundries, transport enterprises, whole-sale & retail businesses, hotels & restaurants, Cyber cafes, and software firms and they operate in the market environment, that differ in their degree of sophistication and skills. SMEs are generally classified by the number of employees and /or by the value of their total assets, and /or by turnover. The size-classification varies between different countries and there is no common agreement in their definitions. However, these classifications carry a minimum as well as a maximum size for SMEs. Small and medium sectors such as sewing, cosmetics, design and other sectors that do not require large amounts of capital have attracted largely Omani women.

Size of Small Scale Sector in Oman

Kalyani, Brinda, P. Al Yahyaee, L (2012), “According the government statistics, the number of active enterprises stood at 118,386 in 2009. Of this, 117,914 enterprises were SMEs, and accounts for more than 95% of the economic activity. The number of employees in these enterprises represents about 70% of the total labour force in the country. Though a definite estimate is not available, a rough estimate of the contribution of the SME sector to the Sultanate’s GDP is around 20 to 25 percent. In reality, there is a meager lack of database on the SMEs in Oman. They work under the ministry of Commerce and Industry which introduce Omani nationals the investment opportunities, awareness about the

importance of SMEs, motivate investors to invest in this sector, and also activate financial institutions to aid the industry”.

According to ‘Business Today’ magazine published from Oman, a recent World Bank report states that there are about 15,000 to 20,000 active SMEs in Oman with a growth rate of 1.5 per cent per annum. “The development of SMEs has always been on the priority list of the government of Oman”, Ministry of Commerce and Industry, notes that of the 833 industrial units with a capital investment of RO 5,000 or more, 48% are considered small. The medium sector accounted for 43% of the industrial units while 9% were considered to be large. However, the number of employees and the value added in these sectors, the large industrial units account for 59% of the employment generation activities and 63% of the value added, while the medium sector accounts for 35% of the employment and value added. The small sector accounts for only 6% of employment and 2% of the value added. Though the SME sector provides a very dull picture yet the government has been on a constant move to provide financial support to the SMEs in Oman through the Development Bank” Al-Mandhary, Z, (2002).

According to OCCI there is a considerable small enterprise population in Oman and the major portion of enterprise belongs to SMEs. Around 132,000 members of OCCI are small scale enterprises (OER, November 2007). By the assessment made by the HSBC suggests that there are approximately around 15,000-20,000 of SMEs in Oman generating 10-20 per cent of total employment (OER, December 2007). The HSBC estimate reflects those entities which are in the actual business and those who approach the financial institutions. It is to be noted that there exists no accurate data on the size of small scale industries in Oman.

Table 2.

Breakup of registered establishments by sector, employment and size

	No. of employees			
	Micro-Enterprises	Small Enterprises	Medium Enterprises	Total Enterprises
	0-5	6-20	21-100	-
Total Number of establishments	8354	57600	51960	117,914
Total in % of establishment	8%	48%	44%	100%
Total Contribution to employment in %	2%	41%	57%	100%

Source: Hertog, S.(2012), Benchmarking SME Policies in the GCC: a survey of challenges and opportunities

GROWTH AND THE CONTRIBUTION OF SMEs IN OMAN

There is a consensus among policy makers, economists, and business experts that Small and Medium Enterprises (SMEs) are drivers of economic growth. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The importance of small and medium enterprises (SMEs) in the business landscape of Oman cannot be overemphasized. The rapidly growing economy and its business environment offer tremendous opportunities and challenges for the sector.

The Royal Decree No. 19/2007, establishing of the Directorate General for Development of SMEs, in Ministry of Commerce and Industry embodies the continuous efforts exerted by the government to develop this sector, which represents a fundamental pillar of the Omani economy. The role of SMEs is not limited only in providing job opportunities and contributing to the development of economic performance, but also extends to include their ability to keep pace with the economic development and deal with the market changes or any sudden global economic shocks. Small and medium enterprises are easy to establish and do not need large capital or sophisticated technology. They can be established in industrial and various service fields and are capable to adapt with local situations which sometimes suffer from the absence of developed facilities for the infrastructure.

Also SMEs can take advantage of the available raw material and products of other industries. SMEs and their development is the main concern for those involved in enhancing the economic development in all countries. This interest in SMEs may be emerged as they are the appropriate mean to achieve development in developing countries and according to a recent study issued by the UNIDO: "small and medium enterprises are able to be pioneer investment engines in the development march and there is a need to enormous potential of SMEs to stimulate growth and development, through investment and specific policies that reduce their obstacles, and finding the initiatives to promote and develop them to become an integral part of the local economy". Over the past period, specifically the last years of this decade, most countries with different economy levels believed that small and medium enterprises play a crucial role in the economic development and in achieving the main development goals. This sector has increasing role in creating job opportunities, increasing the exports and accepting modern technologies.

The SMEs role and contribution in the economy is generally measured by three main standards: contribution in employment, production, and its share of the overall number of the firms in the economy. The SMEs providing an actual and possible competition resource for the large firms and reduce its ability to domain prices. These firms consider as the primary resources for procuring job opportunities for developed and developing countries as it is the basic seeds for the large companies.

They are also differentiated in providing a fit work environment where the owner and the employees work together to achieve their common interests. SMEs are helping in developing the less developed regions of low income levels and high rates of persons who are looking for work. These firms are considered as a fertile field to develop innovation and serious ideas. Nevertheless, SMEs in Oman, as in other countries, are still facing a number of difficulties and obstacles that are impeding and complicating their operations and growth.

Institutional Support Provided to SMEs in Oman

Although there is no separate policy framework drawn up for the SMEs, the government has adopted certain steps in this regard like the availability of Oman Development Bank loans, incubator facilities, equity funding by the Youth Fund, and micro-business development facilities offered through the SANAD program. Kmoonpuri, H.M. (2004), The small entrepreneur development facilities offered by Intilaaqah represent contributions by the private sector. These programs aim at promoting the small and medium enterprises in Oman. Furthermore, private sector banks such as Bank Muscat, HSBC Bank, Middle East Limited, Sohar Bank, and National Bank of Oman also support the small and medium enterprises. This section explains the support extended by the above mentioned institutions and banks.

Table 3. Supporting Institution for SMEs

Government agencies	Quasi-government and private agencies	Commercial Banks
Ministry of Commerce and Industry (Business Diagnostic Center)	Oman Chamber of Commerce and Industry	HSBC Middle East
Ministry of Manpower (Sanad Programme)	Fund for Development of Youth Projects "Sharakah"	Bank Muscat
Ministry of Social Development (Livelihood (RizGH) Resources Projects)	Intilaaqah Programme	Sohar Bank
Public Establishment for Industrial Estate (Knowledge Oasis Muscat)	Grofin Oman	National Bank of Oman
Oman Development Bank	Omani Women's Association	Standard Chartered Bank
Omani Center for Investment Promotion & Export Development (OCIPED)		Oman Arab Bank
-	-	Oman International Bank
-	-	Bank Dhofar

Source: Sanad Report, 2010

LITERATURE REVIEW

The entrepreneur is the key factor in the private enterprise sector and it can be defined as a person who is able to look at the environment, identified opportunities for improvement, gather resource, and implement action for those opportunities. Norton E, (1991) found that SMEs often relied on short term loans for both industrial and banking out that the small and medium enterprises often resorted to short-term loans, for both commercial and banking purposes. Whereas, the proportion of long-term debt to total debt is very high in large organizations.

Cook, P. and Nixon, F(2000) posits that the interest in the role of SMEs in the development process continues to be in the forefront of policy debates in developing countries. OCCI, (2006), SMEs are vital in developing countries, for the economic growth and development. SMEs, through entrepreneurship helps the process of economic development, fosters economic growth, generate employment, and reduces rural unemployment and migration. Women, all over the world, have established success in handling small scale projects. Simultaneously, taking care of some large-scale industries and boosting innovation, the small-scale enterprises help the business community for the upliftment of women.

V. van de Vrande et al.(2009)The study focuses on the perceived challenges and motives of the open innovation methods adopted in SMEs. It was found that SMEs adopting the innovative practices in the areas of marketing and technology had a good impact on meeting the customer demands and overcoming the competition. Furthermore the most important challenges were related to organizational and cultural issues since they were dealing with the external contacts.

John Ackah & Sylvester Vuvor (2011) highlights the issue related to SMEs in obtaining the credit loans for the general business and do undertake the expansion of the projects. It was recommended to liberalize the loan facilities and to encourage the financial institutions to establish factoring services, tax incentives for those lending to SMEs

Aziz, et al (2012) the study addresses the various issues and challenges encountered by hospitality and tourism business under MSM. It was found that the MSM enterprises face obstacles like lack of financial assistance, high taxes, and government support.

Bowen, M et al (2009) Study reveals the challenged faced by SMEs in different economic situations. It was found that the challenges are competition among the large firms, financial constraints, lack of imports, non-security, lack of training and development. Entrepreneurship Development programme and education is a major thrust to business success. Further the SMEs need to follow certain policies to overcome the barriers like; reasonable price, liberalized loan facilities, incentives and subsidized interest rates. It was recommended that strategies should be adopted by the government of Nairobi to achieve the business success

Significance of the Study

Small and Medium Enterprises are significant to developing and developed countries by contributing effectively to the promotion of economic growth and development of the country. The importance of this study is to discuss the challenges faced by owners of small and medium enterprises in Muscat and find ways to overcome the barriers and secure the support of institutions in assisting the SME to be an engine of creating the job opportunities and experience the regional balanced country.

Objectives of the Study

- To examine the challenges faced by the SME owners in Muscat .
- To analyze whether the challenges faced by male and female entrepreneurs are different.
- To analyze the relationship of the demographic profile with the challenges faced by the SME owners
- To provide recommendation based on the analysis

Hypotheses

H01. There is no significant difference in the challenges faced by male and female entrepreneurs

H02. There is no significant relation between age of the SME owners and policy and administrative challenges.

H03. There is no significant relation between age of the SME owners and financial challenges.

H04. There is no significant relation between age of the SME owners and technical challenges.

H05. There is no significant relation between age of the SME owners and marketing issue challenges

H05. There is no significant relation between age of the SME owners and education and training challenges.

H06. There is no significant relation between education of the SME owners and policy and administrative challenges.

H07. There is no significant relation between education of the SME owners and financial challenges.

H08. There is no significant relation between education of the SME owners and technical challenges.

H09. There is no significant relation between education of the SME owners and marketing issue challenges

H010. There is no significant relation between education of the SME owners and education and training challenges.

METHODOLOGY

Descriptive research design was used for this research. Samples of 35 SME owners were taken for this study. Both primary and secondary data were used for this study. Primary data was collected through questionnaires. Both primary and secondary data were used for this study. Primary data was collected through the questionnaires. Part 1 consists of demographic information and part 2 was on the challenges faced by SME owners regarding the policy and administrative challenges, financial challenges, technical challenges, marketing issue challenges and education and training challenges. The techniques used are Descriptive statistics (mean), correlation and -t-test

RESULTS/FINDINGS

Table 4. Table showing the Descriptive analysis

Challenges	Mean	Std. Deviation
Policy	4.2	.56983
Financial	3.95	.75923
Technical	1.89	.41590
Marketing	4.17	.58086
Education	1.94	.59125

Source: Computed

Interpretation: From the above table no. it is understood that the respondents are facing more challenges in policy, marketing and education

Policy and Administrative challenges

The Ministry of Commerce and Industry should issue license to the SMEs and individuals business whether they are established at home or in designated areas. The department in the ministry which looking after the SMEs they responsible for ,listing their financial scope and offering consultation additional ,the ministry registers SMEs though the Oman chamber of commerce and industry ahead of endorsement by Manpower Ministry. The Ministry of commerce and industry is the main coordinator with other SMEs relevant ministries.

Financial challenges

The Ministry of Commerce and Industry does not advance finance to any SME project. This role had nevertheless been assigned to the government bank called the Oman Development Bank.

Technical challenges

The Ministry of Commerce and Industry offers some technical support such as guiding logistics and occasionally recommending project qualified for grants.

Marketing challenges

The Ministry of Commerce and Industry recommends markets for SMEs to channel their products. Such markets are either local or global.

Education and training challenges

The Ministry of Commerce and Industry should set up workshops and seminars to train the public on entrepreneurship factor

Table 5. Table showing the Gender and the challenges of the respondents

Gender		Policy	Financial	Technical	Marketing	Educational
male	Mean	4.1462	3.9423	1.8352	4.2308	1.9231
	Std. Deviation	.54128	.83525	.36071	.63609	.62757
female	Mean	4.3556	3.9630	2.0476	4.0000	2.0000
	Std. Deviation	.65405	.51893	.53927	.35355	.50000
Total	Mean	4.2000	3.9476	1.8898	4.1714	1.9429
	N	35	35	35	35	35
	Std. Deviation	.56983	.75923	.41590	.58086	.59125

Source: Computed

Table 6. Table showing the t- test results of the respondents

Sig. (2-tailed)	
Policy	.350
Financial	.945
Technical	.191
Marketing Issues	.311
Educational	.742

Source: Computed

H01: There is no significant difference between male and female SME owners With respect to policy and administrative challenges.

H01 is accepted (sig=0.35,t=0.941).

H02: There is no significant difference between male and female SME owners With respect to financial challenges.

H02 is accepted (sig=0.35,t=0.941).

H03: There is no significant difference between male and female SME owners With respect to technical challenges.

H03 is accepted (sig=0.35,t=0.941).

H04: There is no significant difference between male and female SME owners With respect to marketing issue challenges.

H04 is accepted (sig=0.35,t=0.941).

H05: There is no significant difference between male and female SME owners With respect to education and training challenges.

H05 is accepted (sig=0.35,t=0.941).

Table 7. Table showing the correlations results of the respondents

		age	policy	fin	tech	mkt	edu
Age	Pearson Correlation	1	.115	.051	.268	-.186-	-.247-
	Sig. (2-tailed)		.511	.770	.119	.286	.152
	N	35	35	35	35	35	35
Policy	Pearson Correlation	.115	1	.573**	-.433-**	.275	-.105-
	Sig. (2-tailed)	.511		.000	.009	.109	.549
	N	35	35	35	35	35	35
Financial	Pearson Correlation	.051	.573**	1	-.380-*	.488**	-.072-
	Sig. (2-tailed)	.770	.000		.024	.003	.679
	N	35	35	35	35	35	35
Technical	Pearson Correlation	.268	-.433-**	-.380-*	1	-.511-**	.093
	Sig. (2-tailed)	.119	.009	.024		.002	.594
	N	35	35	35	35	35	35
Marketing Issues	Pearson Correlation	-.186-	.275	.488**	-.511-**	1	-.228-
	Sig. (2-tailed)	.286	.109	.003	.002		.189
	N	35	35	35	35	35	35
Education & Training	Pearson Correlation	-.247-	-.105-	-.072-	.093	-.228-	1
	Sig. (2-tailed)	.152	.549	.679	.594	.189	
	N	35	35	35	35	35	35

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

H01: there is no significant relation between age of the male and female SME owners and policy and administrative challenges.

H02: there is no significant relation between age of the male and female SME owners financial challenges.

H03: there is no significant relation between age of the male and female SME owners and technical challenges.

H04: there is no significant relation between age of the male and female SME owners and marketing issue challenges

H05: there is no significant relation between age of the male and female SME owners and education and training challenges.

Table 8 Table showing the ANOVA results of the respondents

		Sum of Squares	df	Mean Square	F	Sig.
Policy	Between Groups	1.490	2	.745	2.496	.098
	Within Groups	9.550	32	.298		
	Total	11.040	34			
Financial	Between Groups	.200	2	.100	.165	.848
	Within Groups	19.398	32	.606		
	Total	19.598	34			
Technical	Between Groups	.088	2	.044	.244	.785
	Within Groups	5.793	32	.181		
	Total	5.881	34			
Marketing Issues	Between Groups	.248	2	.124	.354	.705
	Within Groups	11.223	32	.351		
	Total	11.471	34			
Education & Training	Between Groups	.046	2	.023	.062	.940
	Within Groups	11.840	32	.370		
	Total	11.886	34			

Source: Computed

H01: there is no significant relation between education of the male and female SME owners and policy and administrative challenges.

H02: there is no significant relation between education of the male and female SME owners financial challenges.

H03: there is no significant relation between education of the male and female SME owners and technical challenges.

H04: there is no significant relation between education of the male and female SME owners and marketing issue challenges

H05: there is no significant relation between education of the male and female SME owners and education and training challenges.

DISCUSSION

The government should frame an appropriate policy to patronize the SMEs by providing the loans at low and subsidized interest rates. There is a need of academic attention by the universities, educational institution and the research council to conduct academic research projects in encouraging the SMEs sectors. In the higher grades vocational courses should be offered and made compulsory by focusing on the technical skills and other business related skills.

The OCCI and the relevant organization should conduct trade fairs, exhibition by exhibiting the products produced by the SMEs. Promotion of SMEs through media's and websites. Conducting and follow up of the events and encouraging participation of local and international SMEs conferences, workshops and seminar on a periodical basis.

Government should also encourage the nationals and citizens to buy the SME products and thereby trading the same.

The role of the government should draft policies that encourage SMEs, simplified formalities for setting up a venture, conduct awareness programs on SMEs, provide technical and financial support to sustain and compete in the market. The SMEs directorate should form a committee to prepare the SME framework, the rules and regulations associated towards that and to avoid cumbersome policies and complexities for those who would prefer registering the business legally.

CONCLUSION

SMEs are the growth engines for any developing economy. The most important challenges facing the SME owners are the policy and administrative challenges followed by the marketing and financial issues. Government has drawn attention on SMEs at the national and global level needs strategic planning and by recognizing its importance its overall development process in Oman. The SMEs turned out to encourage women.

FUTURE RESEARCH

This research paper tries to direct the future study by carrying out the research with the large sampling to identify and validate the challenges in Oman. Future research can include all different type of SMEs in Oman. Also it may also investigate the socio-cultural barriers prevailing in the GCC countries with reference to the SMEs.

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